

CMP: ₹ 616

Target: ₹ 730 (19%)

Target Period: 12 months

April 29, 2023

## Healthy performance; outlook remains encouraging...

**About the stock:** CanFin Homes (CFHL) was promoted by Canara Bank in 1987, with ~30% stake as of March 2023. The HFC has a presence in 205 locations across 21 states and union territories (UTs).

- Housing loans comprise ~90% of book; of which ~73% is to salaried customers
- Average ticket size is ₹ 25 lakh for housing, ₹ 8 lakh for non-housing loans

**Q4FY23 Results:** CanFin Homes reported a healthy performance.

- Loan growth at 18.2% YoY wherein housing loans were up 17.5% YoY
- NII up 10% YoY, NIMs down 10 bps at 3.4% due to lag in rate transmission
- PAT up 34.9% YoY at ₹ 166 crore; GNPA steady at 0.6% QoQ

**What should investors do?** CanFin's consistent business growth coupled with superior asset quality led by strong underwriting to aid earnings and return ratios. Anticipated healthy earnings growth at 20% CAGR in FY23-25E and RoA at ~2% are expected to drive valuations.

- Stock is currently at 1.6x ABV, we retain our **BUY** rating on the stock

**Target Price and Valuation:** We value CanFin Homes at ~1.9x P/ABV FY25E and revise our target price from ₹ 625 to ₹ 730 per share.

**Key triggers for future price performance:**

- As the new MD & CEO is on boarded, the overhang has gone and the strategy broadly remains unchanged
- Loan growth guidance steady at 18-20% YoY but the management expects demand to revive in two to three quarters as interest rates stabilise
- Margins are expected to settle at current levels, provide cushion and aid earnings growth
- Its strong parent backing and consistent superior asset quality will keep cost of funds lower & leverage higher, thus enabling better return ratios

**Alternate Stock Idea:** Besides CanFin Homes, in our coverage we also like HDFC Ltd.

- HDFC Ltd is the largest HFC and demonstrated a consistent performance in terms of both business growth as well as asset quality
- BUY with a target price of ₹ 3150

BUY



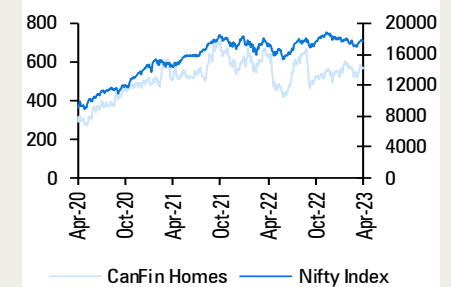
### Particulars

Particulars	Amount
Market Capitalisation	₹ 8212 crore
52 week H/L	678 / 408
Net worth	₹ 3647 Crore
Face Value	₹ 2
DII Holding (%)	25.0
FII Holding (%)	10.4

### Shareholding pattern

Holding (%)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	30.0%	30.0%	30.0%	30.0%	30.0%
FII	0.0%	0.0%	9.3%	10.0%	10.4%
DII	24.7%	24.8%	23.3%	23.5%	25.0%
Others	45.3%	45.2%	37.4%	36.5%	34.7%

### Price Chart



### Recent Event & Key risks

- GNPA steady QoQ at 0.6%. R/s book steady at 2.2%
- Key Risk:** 1) Lag in rate transmission may dent margins 2) Subdued demand for housing loans

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	675	798	816	1015	14.6%	1226	1478	20.7%
PPP	579	686	682	866	14.4%	1062	1283	21.7%
PAT	376	456	471	621	18.2%	737	898	20.3%
ABV (₹)	153	186	224	268	20.6%	316	377	18.5%
P/E	21.8	18.0	17.4	13.3		11.1	9.1	
P/ABV	4.0	3.3	2.7	2.3		2.0	1.6	
RoA	1.9%	2.1%	1.9%	2.0%		2.0%	2.1%	
RoE	19.1%	19.2%	16.6%	18.3%		18.5%	19.0%	

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Healthy operational performance

- CanFin Homes reported a healthy operational performance. NII growth came in at 10.1% YoY at ₹ 261 crore. Margins declined 10 bps QoQ to ~3.4%
- Opex was up 7.3% YoY, attributed to building up of resources. However, higher income levels kept CI ratio controlled at 18.9% (vs. 19.8% in Q4FY22)
- During the quarter, provisions jumped ~3x QoQ to ₹ 24 crore, mainly on account of increase in provision for standard asset. The standard asset provisions were at ₹ 24.7 crore vs. reversal of ₹ 5.93 crore in Q3FY23. Aided by healthy operational performance, PAT reported growth of 47% YoY, 9% QoQ at ₹ 166 crore (vs. our estimate of ₹ 160 crore)
- Asset quality saw an improvement with GNPA ratio at 0.55% (vs. 0.60% in Q3FY23). PCR improved to 52.3% vs. 50.7% in Q3FY23
- Loan book witnessed decent growth of 18.2% YoY, 4.8% QoQ at ₹ 31563 crore, in which housing loan segment (comprises 89.1% share in advances) grew 17.5% YoY (4.7% QoQ). Salaried segment grew 16.3% YoY, 4.1% QoQ and self-employed segment grew 23.8% YoY, 6.8% QoQ
- On a sequential basis, disbursements growth has been moderated to 3.8% (declined 6.2% YoY) at ₹ 2538 crore whereas cumulative disbursements saw decent growth of 8% YoY at ₹ 8949 crore

### Q4FY23: Conference Call Highlights

- Guidance for FY24E** – Loan growth and disbursement growth to be ~18-20% YoY, NIMs at ~3.5%. If there is no further rate hike, CoF likely to remain steady. Credit cost to hover at ~5-7bps. Aims to open 12-15 branches every year. RoE and RoA at ~17% and ~2% levels, respectively
- Rates on liabilities grew at a faster pace than on assets. Hence, NIMs contracted in Q4FY23. Yet to see repricing benefit on ₹ 18000 crore book fully or partly of which ₹ 5500 crore will come in Q1FY24 and balance in Q2FY24 (book is reset on annual basis). During the quarter ~ ₹ 10000 crore book had been repriced
- During the quarter, the management had taken a conservative approach and made additional provisions. Hence, PCR increased significantly to 62% (50% in Q3FY23). Total provisions on balance sheet was ₹ 312 crore vs. ₹ 290 crore in Q3FY23
- The company is carrying ₹ 4600 crore of undrawn lines with banks on which no interest is paid. During the quarter, ₹ 1000 crore NCDs were raised at 8.45%, which led to a significant increase in cost of funds
- DSAs will continue to remain significant sourcing channel for Can Fin Homes. BT out during the quarter was ₹ 100 crore
- Total 65% of loans are from southern states and balance 35% from other states. The management is targeting a 60:40 mix
- Total restructured book was at ₹ 695 crore, recoveries of ₹ 16 crore and slippages during the quarter were ₹ 8.6crore. Total 75% of the book yet to come out of moratorium

CanFin Homes - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.8	4.9	4.9
Social	22.6	23.6	23.6
Governance	83.6	83.6	83.6
<b>Overall ESG Score</b>	<b>35.7</b>	<b>37.4</b>	<b>37.4</b>

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	(₹ bn)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E
Can Fin Homes (CANHOM)	616	730	Buy	82	35.4	46.2	55.3	67.5	17.4	13.3	11.1	9.1	2.7	2.3	2.0	1.6	16.6	18.3	18.5	19.0
HDFC (HDFC)	2,775	3,150	Buy	5,091	75.8	86.7	100.0	114.4	36.6	32.0	27.7	24.3	4.2	3.7	3.3	2.9	12.0	12.3	12.6	12.7

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	261	265	237	10.1	252	3.8	Decent business growth led by healthy business
Reported NIM (%)	3.4%	3.64%	4.2%	-78 bps	3.5%	-10 bps	Margin contraction due to transmission lag
Other Income	12	5	5	123.1	5	140.7	
Net Total Income	273	271	243	12.7	257	6.5	
Staff cost	22	15	18	22.6	21	4.8	
Other Operating Expenses	29	34	30	-2.1	22	30.3	CI ratio inched up at ~19%
PPP	222	222	195	14.0	213	4.2	
Provision	24	11	30	-21.3	8	182.7	PCR increased to 62% vs 50% in Q3FY23
PBT	198	211	164	20.5	205	-3.2	
Tax Outgo	32	51	41	-22.3	53	-39.3	
PAT	166	160	123	34.9	151	9.4	Steady PPP aided PAT growth
<b>Key Metrics</b>							
GNPA	174	143	171	1.9	181	-4.0	Asset quality continue to improve; GNPA ratio at 0.55%
NNPA	83	73	81	2.8	89	-7.1	
Loan Book	31563	31576	26711	18.2	30115	4.8	Healthy loan growth momentum continues
Borrowings	24545		21395	14.7	23550	4.2	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	1,125	1,226	9.0	1,295.0	1,478	14.2
Pre Provision Profit	949	1,062	12.0	1,091.0	1,283	17.6
NIM(%)	0.0	3.4%	0 bps	0.0	3.5%	0 bps
PAT	660	737	11.6	759.0	898	18.4

Source: Company, ICICI Direct Research

**Exhibit 4: Assumption**

	Current		Earlier	
	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	18.4%	18.0%	16.5%	16.1%
NIM Calculated (%)	3.4%	3.5%	3.1%	3.1%
Cost to income ratio (%)	15.7%	15.3%	17.4%	17.5%
GNPA (₹ crore)	206.4	255.7	229.6	267.8

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Interest Earned	1,970	2,715	3,163	3,740	
Interest Expended	1,154	1,701	1,937	2,261	
Net Interest Income	816	1,015	1,226	1,478	
% growth	2.3	24.3	20.9	20.6	
Non Interest Income	19	28	34	36	
Net Income	835	1,042	1,261	1,515	
Employee cost	77	84	98	116	
Other operating Exp.	76	93	100	115	
Operating Profit	682	866	1,062	1,283	
Provisions	47	42	60	61	
PBT	635	824	1,002	1,222	
Taxes	164	203	266	324	
Net Profit	471	621	737	898	
% growth	3.3	31.9	18.6	21.9	
EPS (₹)	35.4	46.2	55.3	67.5	

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY22	FY23	FY24E	FY25E	
Valuation					
No. of Equity Shares	13.3	13.3	13.3	13.3	
EPS (₹)	35.4	46.2	55.3	67.5	
BV (₹)	230.3	273.9	323.9	387.3	
ABV (₹)	224.2	268.4	315.8	377.0	
P/E	17.4	13.3	11.1	9.1	
P/BV	2.7	2.2	1.9	1.6	
P/adj.BV	2.7	2.3	2.0	1.6	
Yields & Margins (%)					
Yield on interest earning assets	7.8%	8.8%	8.7%	8.8%	
Avg. cost on funds	5.3%	6.3%	6.1%	6.0%	
Net Interest Margins	3.2%	3.3%	3.4%	3.5%	
Spreads	2.5%	2.5%	2.7%	2.8%	
Quality and Efficiency					
Cost / Total net income	18.3%	16.9%	15.7%	15.3%	
GNPA%	0.6%	0.6%	0.6%	0.6%	
NNPA%	0.3%	0.3%	0.3%	0.3%	
ROE (%)	16.6%	18.3%	18.5%	19.0%	
ROA (%)	1.9%	2.0%	2.0%	2.1%	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Sources of Funds					
Capital	27	27	27	27	
Reserves and Surplus	3,040	3,621	4,286	5,131	
Networth	3,067	3,647	4,313	5,157	
Borrowings	24,648	29,068	34,812	40,904	
Other Liabilities & Provisions	230	355	283	331	
<b>Total</b>	<b>27,944</b>	<b>33,070</b>	<b>39,407</b>	<b>46,392</b>	
Applications of Funds					
Fixed Assets	35	45	38	40	
Investments	1,126	1,459	1,673	1,865	
Advances	26,378	31,193	36,947	43,588	
Other Assets	406	373	749	899	
<b>Total</b>	<b>27,944</b>	<b>33,070</b>	<b>39,407</b>	<b>46,392</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Growth ratios		(%)			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Total assets	26.6%	19.5%	17.2%	17.7%	
Advances	20.5%	18.3%	18.4%	18.0%	
Borrowings	25.8%	21.0%	18.0%	17.5%	
Total Income	3.1%	24.5%	21.3%	20.1%	
Net interest income	2.3%	24.8%	20.4%	20.6%	
Operating expenses	23.4%	13.4%	14.3%	16.8%	
Operating profit	-0.6%	27.0%	22.7%	20.8%	
Net profit	3.3%	31.9%	18.6%	21.9%	
Book value	17.5%	18.9%	18.2%	19.6%	
EPS	3.3%	30.6%	19.7%	21.9%	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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